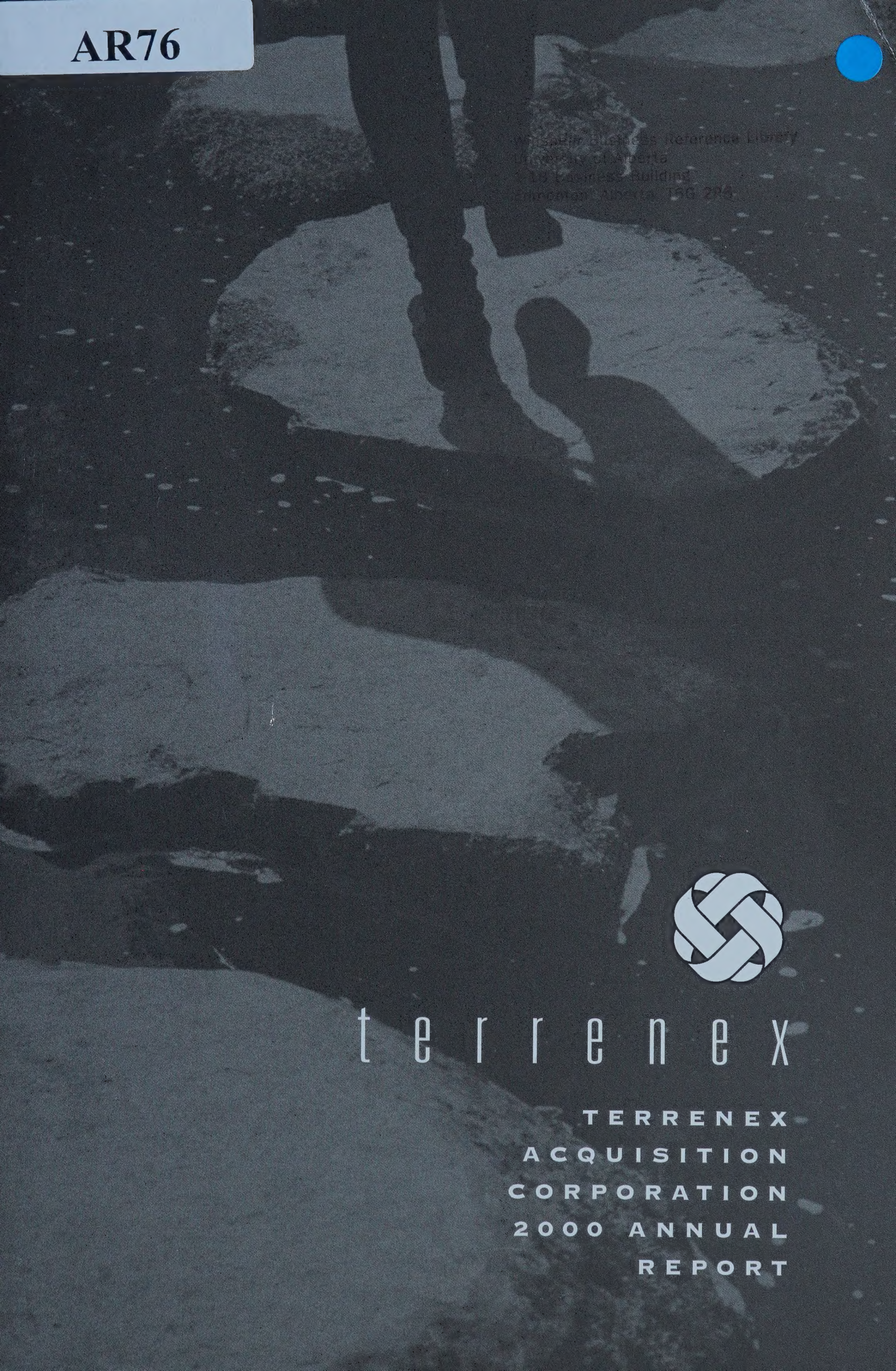

terrenex

TERRENEX ACQUISITION CORPORATION 2000 ANNUAL REPORT

Terrenex Acquisition Corporation is a Canadian Venture Exchange listed investment company that adds value through equity capital together with financial and strategic management services. The Company focuses on early stage opportunities with high potential in domestic and international markets.

The Directors of the Company bring a unique blend of public and private financing expertise along with hands on experience in the management of businesses.

While the Company does not typically control its investments, it generally acquires a meaningful position together with the ability to influence the ultimate success of an investment.

The Company only invests long term in situations where it can dedicate the time and energy required to maximize the potential for success for all stakeholders in the investments it makes.

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REPORT TO SHAREHOLDERS

On a fully diluted basis we reported an after-tax increase in net assets of $2.7 million or $0.71 per share. Net asset value at year-end was $2.91 per share. This follows on the 1999 year when we reported a $0.70 per share increase in net assets, of which $0.58 was returned to the shareholders on a tax-free basis.

This success resulted primarily from our continued involvement in CanArgo. During the year CanArgo solidified the positive cash flow achieved towards the end of 1999. In addition it successfully raised over US$30 million in new equity. By year-end we liquidated this investment and eliminated our management involvement.

Our stock performance has not matched the strong results delivered over the past two years. This is chiefly, if not entirely, due to the uncertainty relating to the claim of the Canada Customs and Revenue Agency. This is discussed further in our annual report and the notes to our financial statements.

We were unable to find a farm-in partner for our Quebec acreage in 2000 as we hoped. In addition, our project manager and consulting geologist both moved on to other endeavours. As a result, Terrenex was left without management for this project. We continue to believe strongly in this acreage and have a large financial investment in it. To preserve this investment, we entered into a farm-out and financing arrangement with Questerre Energy Corporation who we believe will move this project forward.

For the future we plan to adjust our focus. Our first priority is to work to resolve the CCRA claim favorably to the Company. Secondly, we are supporting the development of our Quebec assets through the farm-out arrangement with Questerre Energy. Last we continue to invest in development-stage companies. However, we are reducing the risk profile through debt and preferred share instruments that require less active management.

Michael R. Binnion
President

Oil & Gas Exploration in Quebec

Terrenex successfully farmed out its interest in the St. Lawrence Lowlands and the Gaspe Peninsula to Questerre Energy Corporation, an independent company focusing on natural gas projects in North America. (See below)

Questerre will earn an 80% interest in all the permits in exchange for operating the permits and drilling one earning well.

St. Lawrence Lowlands

The St. Lawrence Lowlands have been sparsely explored with the exception of shallow drilling by Shell in the 1970's. During the 1980's Terrenex's initiated a play to test large deep tilted fault blocks. While these structures were proven to be tight, the existence of a deep gas source and migration was proven for the first time in this geological setting.

Advances in the recognition of significant wrench faulting in this area, coupled with a better understanding of hydrothermal dolomitization and fractured reservoirs, led Terrenex to completely reevaluate this area. Based on this reevaluation, Terrenex acquired a land position of 380,283 hectares of land on the south side of the St. Lawrence River, between Montreal and Quebec City.

Prospects in the St. Lawrence Lowlands

Reprocessing and reinterpretation of its extensive seismic database has resulted in the development of two drillable prospects, three well-defined leads and several play concepts here in the lowlands. The Becancour prospect is the largest structure now known on this acreage and until now it had never been mapped. It has an unrisked upside potential of 2.6 Tcf in gas reserves on the maximum closure. Yamaska is the second prospect with an unrisked upside potential of 0.5 Tcf in gas reserves on the maximum closure. These prospects are based on areas of extensive fracturing as a source of porosity and permeability.

The initial drillable prospects are based on drop-down flower structures caused by wrench faulting. Hot fluids from basement can develop fractured and hydrothermally dolomitized reservoirs in these circumstances. The concept is well developed in the Appalachian basin. Our permits are on trend with several recent large gas discoveries in New York and West Virginia.

Gaspe Peninsula

In 1999, Terrenex acquired the rights to 495,610 hectares of exploration acreage in the Gaspe Peninsula. Significant oil shows encountered in a number of wells drilled here since the early 1860's have demonstrated the existence of an active hydrocarbon system in the area.

Preliminary exploration efforts consisted of a detailed review of geological interpretations and previous exploration work conducted on this acreage. This resulted in the development of several new play concepts for large light oil accumulations.

To firm up some of these concepts, Terrenex purchased just over 300 km of seismic data and funded a detailed geological mapping and sampling study over key areas of interest. Under the Questerre farm-out arrangement Questerre is high-grading the Gaspe acreage. The objective is to recommend acreage to be kept and/or dropped.

Questerre Energy Corporation

Questerre was formed in the fall of 2000 to primarily pursue a large-scale gas exploitation project in northeast British Columbia.

The project is an existing gas field with estimates of remaining gas in-place ranging from 1.4 Tcf to 3.3 Tcf. The field lies adjacent to the Fort Liard area of the southern North West Territories, where large recent gas discoveries by Chevron Canada, Berkley Petroleum and others have confirmed the region's substantial natural gas potential.

Questerre is currently implementing a dewatering scheme on this field to establish immediate production and cash flow. The project economics are enhanced by existing well bores, facilities and pipelines that minimize capital expenditures and virtually eliminate tie-in costs. Favorable fiscal terms further improve the economics of the project.

Terrenex recognized the excellent market conditions for gas-weighted companies and the strong technical management in Questerre. Therefore, in conjunction with the farm-out of the Quebec licenses to Questerre, Terrenex made a $4.5 million preferred share investment and subscribed for approximately 7% of the common equity. In keeping with its investment policies, three Terrenex directors sit on the board of this significant investment.

We are very excited about the prospects for Questerre Energy as it capitalizes on the current energy market in North America.

CanArgo Energy Corporation

CanArgo made excellent progress in 2000. In particular, it was able to raise significant equity funds based on the success of its concurrent production plan on the Ninotsminda field in Georgia.

Terrenex took advantage of the increased market interest in CanArgo and liquidated its investment during the second half of this year.

Canada Customs & Revenue Agency Reassessment

Terrenex has a strong track record in working to deliver value directly to its shareholders. A prime example is the capital reorganization effected in 1999. Another example was in 1995, when the success of its investment in JKX Oil & Gas plc led the Company to distribute over $40 million to shareholders as part of a Plan of Arrangement. This distribution was made in the form of JKX Oil & Gas shares, cash and a combination thereof.

The Plan of Arrangement was carefully considered by the Board of Terrenex at the time and thought to be in the best interests of shareholders. Based on professional advice with respect to the Plan of Arrangement, the Board proceeded after approval by the Alberta courts and the shareholders.

In April 2000, the Canada Customs and Revenue Agency re-assessed this 1995 reorganization. They are claiming that the cost base of JKX shares distributed to shareholders was lower than the amount reported by the Company on its 1995 tax returns.

Should the Revenue Agency be proved correct, the amount of income taxes payable would be approximately $14.35 million plus interest. This would be in excess of the Company's current asset value and would render Terrenex insolvent.

The Company's current Board of Directors has sought and continues to seek independent advice with respect to this situation. The Company's position is that the 1995 transaction was carried out professionally and responsibly. Furthermore, Terrenex believes that the income tax returns were filed correctly and that no income tax is currently due. The Company vigorously objects to the notice of reassessment and believes it will ultimately be found not to have any liability with respect to this transaction.

AUDITORS' REPORT

To the Shareholders of Terrenex Acquisition Corporation

We have audited the consolidated balance sheets and statements of quoted and unquoted investments of Terrenex Acquisition Corporation as at December 31, 2000 and 1999 and the consolidated statements of operations and retained earnings (deficit) and changes in net assets for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and 1999, its results of operations and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta
March 30, 2001

CONSOLIDATED BALANCE SHEETS

As at December 31	**2000**	1999
	$	$
Assets		
Quoted investments	**594,589**	5,993,536
Unquoted investments	**6,108,729**	1,142,491
Cash and term deposits	**3,573,076**	1,178,102
Accounts receivable	**55,585**	208,623
Capital assets (note 3)	**16,522**	18,206
Oil and gas properties (note 4)	**812,469**	303,638
	11,160,970	8,844,596
Liabilities		
Accounts payable and accrued liabilities	**43,714**	36,899
Other liabilities (note 5)	**–**	432,505
	43,714	469,404
Shareholders' Equity		
Capital stock (note 6)	**10,241,801**	10,173,745
Retained earnings (deficit)	**875,455**	(1,798,553)
	11,117,256	8,375,192
	11,160,970	8,844,596

Commitments and contingencies (note 1 and 10)

Net asset value per common share		
Basic	**2.91**	2.05
Fully diluted	**2.77**	2.05

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

For the years ended December 31	**2000** **$**	1999 $
Investment income		
Net realized gain on investments	**6,302,299**	486,246
Change in unrealized appreciation (depreciation) in value of investments	**(3,310,902)**	2,395,973
	2,991,397	2,882,219
Other revenues and expenses		
General and administration	**435,539**	232,769
Interest and dividend income	**(125,711)**	(71,502)
Exchange losses	**3,421**	20,339
Amortization	**4,140**	4,104
	317,389	185,710
Increase in net assets from operations	**2,674,008**	2,696,509
Deficit – Beginning of year	**(1,798,553)**	(4,495,062)
Retained earnings (deficit) – End of year	**875,455**	(1,798,553)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	**2000** **$**	1999 $
Increase in net assets from operations	**2,674,008**	2,696,509
Share transactions (note 6)		
Capitalization of share purchase loan	**198,331**	233,985
Repurchase of common shares	**(127,375)**	(89,401)
Redemption of Class B shares	**(2,900)**	(1,798,207)
	68,056	(1,653,623)
Net assets – Beginning of year	**8,375,192**	7,332,306
Net assets – End of year	**11,117,256**	8,375,192

CONSOLIDATED STATEMENTS OF QUOTED INVESTMENTS

As at December 31			2000			1999
	Shares Number	**Cost $**	**Market Value $**	Shares Number	Cost $	Market Value $
Securities						
Flowing Energy Corporation (formerly Bow Valley Forest Products Limited)	**494,000**	**78,342**	**247,000**	253,500	48,988	38,025
Cadiz Land Company Inc.	**17,500**	**90,174**	**234,571**	107,500	554,054	1,473,825
Arcis Corporation	**15,000**	**27,600**	**30,000**	125,000	57,500	51,250
NetDriven Solutions Inc (formerly Geophysical Microcomputer Applications Ltd.)	**112,000**	**91,087**	**26,880**	122,257	99,430	91,693
Huntington Exploration Inc.	**266,500**	**199,055**	**15,990**	266,500	199,055	21,320
FAS Medical Ltd.	**100,000**	**23,810**	**15,000**	346,000	82,381	10,380
Petromin Resources Ltd.	**57,000**	**58,425**	**13,110**	57,000	58,425	23,370
CanArgo Energy Corporation	**3,518**	**4,357**	**4,615**	3,712,547	3,886,375	4,096,388
Falcon Well Services Ltd.	**411,376**	**15,000**	**4,114**	411,376	15,000	4,114
Arcis Warrants	**12,500**	**1**	**2,239**	12,500	1	N/A
MarkeTVision Direct Inc. (formerly Via TV Marketing Corp.)	**1,150**	**2,019**	**150**	101,150	177,546	126,438
Epicore Networks Inc.	**15,000**	**123,906**	**600**	60,000	123,906	4,200
Fintech Services Limited	**1,000**	**400**	**320**	–	–	–
Smartor Products Inc.	**942,667**	**451,919**	–	942,667	451,919	47,133
Cie-Energy Ply Foil Canada	–	–	–	45,000	13,500	5,400
		1,166,095	**594,589**		5,768,080	5,993,536

CONSOLIDATED STATEMENTS OF UNQUOTED INVESTMENTS

As at December 31	**2000**	1999
	$	$
Loans – at cost less impairment		
Unsecured non-interest bearing advance to Flowing Energy Corporation	**1,098,252**	–
Unsecured non-interest bearing US $300,000 (1999 – US $362,211) advance to CanArgo Power Limited (note 7(d))	**446,072**	536,072
US $299,664 loan to Caldwell Associates Ltd., bearing interest at US prime plus 1% until August 1, 2000	–	432,505
5% convertible debenture to NRI On-Line Inc. due June 30, 2002	–	100,000
US $31,500 loan to MarkeTVision Direct Inc. bearing interest at 8% per annum until December 19, 1998, 30% per annum thereafter	–	57,829
	1,544,324	1,126,406
Securities – at cost less impairment		
Questerre Energy Corporation – 6% Cumulative redeemable convertible preferred shares	**4,500,000**	–
Questerre Energy Corporation – Class A common	**60,000**	–
50,000 shares Internet Toolbox	**1**	11,680
Petromin 7.5% debentures	**4,400**	4,400
200,000 common shares Commerce Direct International, Inc.	**1**	1
Parallex Corporation	**1**	1
Terra Block	**1**	1
Petromin warrants	**1**	1
	4,564,405	16,084
	6,108,729	1,142,490

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Nature of operations

The company is in the business of making venture capital investments with a view to realizing future capital gains.

The ultimate realisation of the company's assets on a going concern basis will require a successful result to Canada Customs and Revenue Agency's ("CCRA") reassessment of $14.35 million in taxes and interest, as described in Note 10. If the result is different than anticipated, the company may not recover the carrying value of its assets which could result in a significant impairment charge to operations.

2 Accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

a) Consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Cabernet Holdings Ltd.

b) Investments

Investments in companies which are traded on a recognized exchange, and are not otherwise restricted or thinly traded securities, are valued at the latest sale price reported by the principal securities exchange on which the issue is traded or, lacking any sales, at the closing bid prices.

Investments in securities which are restricted or thinly traded securities are recorded at estimated fair value. Estimated fair value is determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly fashion over a reasonable period of time.

Investments in privately held companies are initially recorded at cost. These investments continue to be carried at cost unless there is persuasive evidence of an impairment in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

The carrying value of investments is reviewed quarterly. The valuation process includes inherent uncertainties. The values determined might differ from values that will be realized on actual disposition of the investments. These differences could be material to the fair value of investments as a portfolio.

Realized gains or losses on disposition of investments and unrealized gains or losses in the value of investments, net of applicable income taxes, are reflected in the statement of operations.

The company has the ability to exert significant influence through shareholdings and election of directors on certain investments. However, the company has clearly demonstrated its intention to dispose of these investments in due course. Accordingly, the company does not use equity accounting to account for these investments.

c) Investment transactions and income recognition

Investment transactions are accounted for on the trade date. Gains or losses arising from the sale of investment are determined using the average cost basis. Income from investments is recorded on the accrual basis. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

d) Net asset value per common share

Basic net asset value per share is based on the number of common shares outstanding at the balance sheet date. Fully diluted net asset value per share reflects the dilutive effect of share options outstanding at the balance sheet date.

e) Foreign currency transactions

Assets and liabilities in foreign currencies are translated into Canadian dollars at the closing exchange rate on the balance sheet date. Revenue and expense items arising from transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect on the transaction date.

f) Capital assets

Office furniture and equipment is recorded at cost and amortized over its estimated useful life on he declining balance method at 20% per annum.

g) Oil and gas properties

The company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized.

No depletion has been recorded to date.

Upon commercial production, the capitalized costs will be depleted using the unit-of-production method based on proven reserves of petroleum and natural gas as determined by independent engineers.

h) Stock options

The company does not record compensation expense in respect of stock options granted to their directors, officers and employees. The consideration paid by holders of the options upon exercise is credited to share capital.

3 Capital assets

			2000	1999
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**	Net $
Office furniture and equipment	**38,295**	**21,773**	**16,522**	18,206

4 Oil and gas properties

			2000	1999
	Cost $	Accumulated amortization $	Net $	Net $
Oil and gas properties	**812,469**	–	**812,469**	303,638

The company has capitalized expenditures relating to obtaining licenses and permits for undeveloped land. During 2000, the company farmed out their interest to Questerre Energy Corporation, a related party, who will operate the properties and intends to carry out a drilling program in 2001.

5 Other liabilities

Other liabilities consisted of a secured demand loan which was repaid during 2000.

6 Capital stock

a) Authorized

An unlimited number of Class A voting common shares

3,916,957 of Class B preferred shares

An unlimited number of first, second, third and fourth preferred shares issuable in series

b) Issued – common shares

		2000		1999
	Number of shares	**Amount $**	**Number of shares**	Amount $
Common shares				
Balance – December 31	**3,854,990**	**9,920,695**	**3,919,290**	12,251,931
Shares repurchased	**(65,000)**	**(127,375)**	**(94,300)**	(89,401)
Shares issued	–	–	**30,000**	30,000
Share re-organization (note 6(c))	–	–	–	(2,271,835)
Total common shares – December 31	**3,789,990**	**9,793,320**	**3,854,990**	9,920,695
Less: Loan outstanding in respect to shares issued (note 7(b))	–	**(22,247)**	–	(220,578)
Total common shares	**3,789,990**	**9,771,073**	**3,854,990**	9,700,117
Class B preferred shares				
Balance – December 31	**809,400**	**473,628**	–	–
Share re-organization (note 6(c))	–	–	**3,916,957**	2,271,835
Shares redeemed (note 6(c))	**(5,000)**	**(2,900)**	**(3,100,357)**	(1,798,207)
Shares cancelled	–	–	**(7,200)**	–
Total Class B shares	**804,400**	**470,728**	**809,400**	473,628
Total shares issued	**4,594,390**	**10,241,801**	**4,664,390**	10,173,745

c) Class B preferred shares

On March 30, 1999, the shareholders of the company approved a share capital reorganization. Under the reorganization, each common share of the company was converted to one Class A common share and one Class B common share. The Class A shares are identical to the current class of common shares. The Class B shares were redeemable at the option of the holder for one year at $0.58 per share, or retractable by the company at any time at a price of $0.58 per share together with accrued and unpaid dividends ("redemption price"). The redemption price was paid in cash for all shares redeemed in 1999.

The Alberta Business and Corporations Act requires the company meet certain financial tests in order to redeem its Class B shares. The company will not be able to redeem further Class B shares until the CCRA reassessment (note 10) has been resolved in favour of the company. As of April 11, 2000, 137,100 Class B shares had been tendered for redemption but not redeemed. The balance owing is $79,518. Of this balance, 35,000 shares are included as tendered for redemption, however, the holder of the shares is claiming the amount should have been 352,000. This has not yet been resolved by the company.

d) Stock option plan

Under the Directors' and Employees Stock Option Plan ("Plan") up to a maximum of 10% of the common shares currently outstanding may be granted as options on common shares, without nominal or par value, in the capital stock of the company. The exercise price of each option shall not be less than the closing quotation on the last business day before the option is granted minus a discount not to exceed the maximum discount permitted under the regulation of the exchange which the company's shares are traded on. The average vesting period of the outstanding options is 1/12 every three month period.

A summary of the company's stock option plan as of December 31, 2000 and 1999 and changes during the years then ended is presented below:

		2000		1999
	Shares	**Weighted-average exercise price $**	Shares	Weighted-average exercise price $
Options outstanding – Beginning of year	**345,000**	**1.00**	–	–
Granted	–	–	360,000	1.00
Cancelled	**(150,000)**	**1.00**	(15,000)	
Options outstanding – End of year	**195,000**	**1.00**	345,000	1.00
Options exercisable at year end	**96,248**	**1.00**	40,415	1.00

The weighted-average contractual life of outstanding options at year end is 3.43 years.

7 Related party transactions

a) In 2000, the company paid directors' and consulting fees of $58,000 (1999 – $30,000) to directors and officers or companies controlled by them.

b) In 1998, the company loaned $424,563 to certain directors and employees of the company to be used to exercise options to buy shares of the company. The loans are non-interest bearing with no fixed terms of repayment. At December 31, 2000, $22,247 (1999 – $220,578) of this loan was still outstanding.

c) In 1998, to earn its interest in CanArgo Power Limited, the company advanced US $499,673 to CanArgo Power Limited, a company owned 50% by the company and 50% by CanArgo Energy Corporation. The advance is non-interest bearing with no fixed terms of repayment. During 1999, an additional advance of Cdn $61,000 was made and a write-down of $269,781 was recorded. During 2000, an additional write-down of $90,000 was recorded.

d) In 2000, Terrenex loaned Flowing Energy Corporation ("Flowing") $500,000 in the form of a demand loan. In lieu of interest, Flowing granted Terrenex a two year option to purchase $500,000 of proven producing reserves in accordance with Canadian Venture Exchange rules.

e) Other receivables between Terrenex and Flowing amount of $98,252.

f) Terrenex acquired 400,000 Class A common shares of Questerre Energy Corporation ("Questerre") for US $40,000 and purchased $4.5 million 6% cumulative redeemable convertible preferred shares of Questerre. At the time of the transactions, a director of the company was also a director of Questerre. The transactions were approved by the independent directors of the company. Subsequent to the transactions, two further directors of the company were appointed to the Board of Questerre.

g) In 2000, $30,000 in rent was charged by Rupert's Crossing, a director related entity.

8 Income taxes

Effective January 1, 2000, the company adopted the Canadian Institute of Chartered Accountants' new accounting standard with respect to accounting for income taxes. The new standard recommends the liability method of determining income taxes where future income taxes are determined based on temporary differences between the tax bases of assets or liability and their carrying amounts. Previously, the company used the deferral method of determining income taxes where deferred income taxes were recognized based on the differences in timing of recognition of revenue and expenses for financial accounting and income tax purposes. The new standard has been applied retroactively without restatement of prior periods.

The effects of the new standard on the opening balances of the 2000 financial statements are:

	$
Increase future income tax assets	**4,305,326**
Valuation allowance	**(4,305,326)**
	–

The following table summarizes the tax effect of the temporary differences which give rise to the future income tax asset at December 31, 2000:

	$
Future income tax assets	
Oil and gas properties	**3,350,450**
Income tax losses	**255,580**
Capital assets	**20,477**
Other	**74,703**
Future income tax liabilities	
Quoted and unquoted investments	**(118,376)**
Valuation allowance	**(3,582,834)**
	–

The provision for income taxes reflects an effective rate which differs from the expected income tax rate of 45%. The primary differences are as follows:

	2000 $	1999 $
Increase in net assets resulting from operations	**2,672,008**	2,696,509
Expected tax at combined federal and provincial statutory rates	**1,202,404**	1,213,429
Non-taxable portion of capital gains	**(407,771)**	(2,288)
Taxable benefit of non-capital loss carry-forwards	**(684,549)**	(618,242)
Taxable benefit of capital loss carry-forwards	**(338,594)**	–
Other non-taxable items	**3,445**	1,498
Tax benefit of accounting losses (recognized)/ not recognized	**225,065**	(594,397)
Provision (recovery) per financial statements	–	–

The company has non-capital losses of $251,950 (1999 – $971,000) which expire at various times to 2006 and which may be applied in the prescribed manner against future taxable income. The company also has net capital loss carryforwards of $nil (1999 – $864,000) which can be carried forward indefinitely to be applied in the prescribed manner against future taxable capital gains. The company has unrestricted resource deductions of $1,109,092 (1999 – $528,638) which may be carried forward indefinitely and applied in the prescribed manner against future taxable income. In addition, the company has restricted resource deductions of $7,212,230 (1999 – $7,212,230) which can only be used against resource profits from successored properties.

9 Financial instruments

a) The company's financial instruments recognized in the balance sheet consist of cash and term deposits, accounts receivable, quoted and unquoted investments, accounts payable and accrued liabilities and other liabilities.

b) The fair values of cash and term deposits, accounts receivable, accounts payable and accrued liabilities and other liabilities approximate their carrying values due to the short term nature of the instruments.

c) Quoted securities are carried at fair market value as disclosed in the Statements of Quoted Investments.

d) The fair value of unquoted securities and loans cannot be practically determined with sufficient reliability. However, provision has been made for known impairment. The investments are detailed in the Statements of Unquoted Investments.

10 Commitments and contingencies

In 2000, the company received a reassessment from CCRA of $9.16 million in federal taxes (including interest) and $5.19 million in provincial taxes (including interest) relating to the company's 1995 reorganization. The Revenue Agency is asserting that the reorganization did not have the effect of increasing the tax cost of JKX Oil and Gas plc shares.

The company received professional advice with regard to the 1995 re-organization and will be vigorously contesting the notice of reassessment and has filed a Notice of Objection. Management is of the opinion that the company will ultimately not have a liability associated with this reassessment. Nevertheless, the actual amount of liability, if any, cannot be determined at this time.

The company is committed to payments under operating leases for office space as follows:

2001	32,500
2002	32,500
2003	32,500
2004	32,500

CORPORATE INFORMATION

Directors

J. F. Russell Hammond, Chairman
Michael R. Binnion, President
Peder Paus
Maria Rees

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Borden Ladner Gervais
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Calgary, Alberta T2P 4H2

Registrar and Transfer Agent

Computershare Trust Company of Canada
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Calgary, Alberta T2P 3S8

Stock Exchange

Canadian Venture Exchange
Symbol : TXA

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